

**FINANCE SEMINAR: "CREATING THE FUTURE WE WANT" - MARCH 12, 2010**

**Banking Sector**

**Mr. Dennis Evans, President, Bankers Association of T&T**

"Thank you very much. I would also like to thank the TTCSI for allowing me to address you all today, members of the Head Table, ladies and gentlemen, members of the media. What I thought I'd do, with ten minutes to present, and with a subject matter "The Future as we want it" I have just five points I would like to make and just talk around them regarding what we would like to see. And to appease Mr. Valley, I'd like to start with the Capital Markets. It is baffling for me why there are not more corporate issuers. When you look at where interest rates are and the fact that we have a deep capital market in Trinidad, especially for the government sector where you could get twenty five year fixed rate issues and even up to a billion dollars, it is surprising that you do not have, in this environment, more corporate issuers coming to the market. I don't want to believe that its comfort the issuers have with their historical bankers; I don't want to believe that its discipline, maybe in providing the financial information when you do approach the markets. But I want to believe that it's more education, and it's more hunger by the bankers to really go out there and encourage the corporate issuers to come to the markets and it's very progressive. The Governor talked about a Syndicated Loan Market and yes, usually, the Syndicated Loan Market starts before the Capital Market. We haven't really had that development in Trinidad, we've gone straight to the Capital Market, but with the new FIA and some of the restrictions that are coming in terms of the one borrower group being n more than twenty-five percent of your capital, there will develop, a Syndicated Capital Market where the banks would have to get together with each other and basically do transactions. So, I think there's good news on the horizon in terms of interest rates being where they are. I know for example my own institution is working on some issues for Private Sector type clients so I'd like to think there's light at the end of the tunnel for more corporate issuers coming. One of the other things in the Capital Markets is the secondary trading however. We always talk about the Secondary Trading and why is that not being developed? What I'm told is that the fee structure needs to be revised. There is a 1.5 percent fee that is considered too high, resulting in little trading volume. So that needs to be looked at in order for the Secondary Trading market to improve. There also needs to be a change in the markets' psychology. Most people buy and hold and there are a few sophisticated investors in the market that buy, and when they buy, it's basically to hold until maturity. If that mindset were to change to more of a trading mindset to make capital gains on some of the issues and take advantage of some of the market issues that might be available if you're thinking on a certain funding and gapping strategy that you might have. Basically, that would encourage more trading activity in the secondary trading market. And then the passage of the SIA to allow for global consistency in accounting standards and the reporting requirements therein, which would be things like: quarterly financial reporting instead of semi-annual, which would give investors a better comfort level with the financial prudence of the companies that they are binding to. The second point that I would like to talk about is one that has been historically, and we hear it time and time again, is the regionalization

and standardization across markets. There we talk about, not only the regulators coming together with a regional approach but also of course the regional stock exchange. Now we've been talking about this for so long; I myself am at a loss for why there isn't more action towards getting it implemented. Since CARICOM's been around we've been talking about a regional stock exchange but I'm a really practical person. In the absence of a Regional stock exchange, at least we could have, where you are registering a bond issue, you could treat the jurisdiction in which you are registering as the one that could act regionally. So if you have a Trinidad issue and register with the Securities and Exchange Commission in Trinidad, that should act for the ECCB and Barbados. Or if we have somebody registering in ECCB, it would also count in Barbados and Trinidad. That is not rocket science. And I don't see why something practical like that can't get done. The third point is a long one. This is the legislative framework. And through the new FIA (And I have my regulator here, remember I'm speaking on behalf of the bankers). One of the points is that government makes up fifty percent nearly of the economy and one of the criteria already alluded to is twenty-five percent should go to one borrowing group and we have three years to accommodate that. That might be good in other widespread economies but I think for the Trinidad economy, with all the activities Government is doing to boost the economy, you would expect an inordinate amount of the portfolio to be Government. So either we give a longer gestation time or try to be a little more flexible on that one requirement, seeing that Government is also guilt-edged and also the equivalent of the US treasury here. The other point that goes with that is that comfort letters are a grey area and we basically treat comfort letters like it's a guarantee and most of the time comfort letters are given, they are given with the proviso that a guarantee will follow in a year's time. So in that intermittent period of the year, you'll be faced with that twenty-five percent rule and we'd like to see some flexibility around that. They have here also the updating of legislation of the Credit Unions, the Insurance Act and other non-bank financial institutions and we know the importance of that. There are still some institutions, who I will not name, that are not really covered under any financial institution act and we need to regularize that, especially if some of these are fairly large players in the market. They operate as banks without the criteria of reserve requirements or capital. Legislation with EML and CFT issues: Suspicious actions, strong penalties for fraud activities like identity theft, credit card scamming etc. I'm sure all of these are under review. The recent formalization of the FIU (Financial Intelligence Unit) is a key step to the success of this legislation. The thing is with legislation is we also need proper monitoring of all the work that is being done by the banks in terms of suspicious activity reports etc. This will only show up, all this legislation and all the reports that the banks do and put in to the FIU; until people are charged, it would be questionable. What sense does it make? Where is all this information going? Who is analyzing it? What is being done with it? Until someone is charged with actual EML-type activity it will be seen as a process where nothing is being done. It has to lead to that (The process being seen to be working) and the Bankers Association will support any means to that end. I'll just make one last point here and even as today as we speak, there is still a lot of bashing of banks in terms of profitability. And one would think the recent Financial Crisis would have shown that a strong financial banking system is very prudent to the operation of an entity. In fact, one of the things that you have to commend the local banks on is basically we didn't get trapped in any of the sub-prime or other derivative-type transactions that have led to financial collapse elsewhere. Just a little recognition of the fact that a strong financial sector is important; even today you see a lot of bashing with profitability that banks make, alluding to no competition. Well there is a lot of competition that exists among the banks. The banks fight for every piece of business; I can tell you there are eight banks operating here and it is not easy, you have seen the mortgage rate seems to be reducing every day. A commercial bank has just

advertised 6.75 percent so there is a lot of competition that takes place and I think that speaks for itself. The fourth point is something alluded to, we need a strong payment system and I'll just touch on that other product innovation. We need not only legislation to ensure a proper payment system but we need cooperation among all the financial entities to make sure we're progressing in the same manner to basically address new products that will be coming. So we need improved technology systems, and compatibility. All these products have to be customer focused and we need to have continuity arrangements in place for record keeping etc. But I tell you, there are a lot of electronic banking products available that people don't utilize. One of the most recent ones is direct debit where you allow the bank to debit your account to pay your utility bills. But getting people on board to go electronic, which is actually much more efficient, sees less fraud and much easier as you don't have to go to the bank, you don't have to line up etc. it's still an education process. The wish list there is for a better job done by us and in keeping with that, the regulators etc. has to ensure that banks put in place the proper systems so that we're all moving forward. Because you don't want where only the international banks have sophisticated electronics platforms and the indigenous banks don't, which is not the case by the way. Many indigenous banks are very up-to-date with their electronic banking system. Other product innovation- There are many products out there but again the mindset of the clients is something that also affects the product innovation. For example, you would think that with LIBO rates at twenty five basis points, and with people borrowing in US dollars, it would be easy to sell fixed rate hedging products. It is not! There is a cost to it. To lock in you would probably have to pay a high rate so people would look at it "if the rate doesn't go up, then I'll make a loss by having entered into it." The mindset is not, "I am protecting myself against a catastrophe of rates going up." Oil prices, natural gas prices, what have you. It is still looked at in terms of making a loss or a profit when in fact it's like insurance. Everybody takes out insurance on their building and their happy when the fire doesn't take place and it's a sunk cost for the peace of mind of sleeping. But that sophistication hasn't reached to the financial products as yet and there again, I think we have a duty to be educating and getting people more involved. The product innovation is there believe me. It's a matter of getting people to put their hands around it and to feel comfortable with the risks that they take. At the board level as well, because boards tend to look at it as profits and loss. And people feel that if they make the wrong decision in terms of it being a loss, they would be criticized and there is no reward for if there is a good decision. The last point which is a quick one is the cost recovery initiative; we want to make sure that the Government has a better spread on the cost of regulations and accept a role, and not place the largest burden on the banks. And I just make that appeal to my regulator. So without further ado I thank you very much."